



Doing Business In Georgia: A Country Commercial Guide for U.S. Companies

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Chapter 1: Doing Business In Georgia

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Market Overview

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- Georgia has made significant improvements in the business environment, specifically in tax administration and revenue collection, resulting in budget surpluses in 2004 and 2005. Georgia has also pursued an ambitious privatization plan.
- Georgia recently received a first-ever sovereign credit rating from Standard & Poor's—B short-term, B+ long-term, and the Heritage Foundation raised Georgia's Economic Freedom index from "mostly unfree" to "mostly free."
- The GDP per capita increased from USD 876.9 in 2003 to USD 1,156 in 2004. Initial 2005 GDP figures put growth at 6.8 percent, compared to 6.3 percent in 2004.
- The Lari (GEL) is the only legal tender in Georgia, and has steadily improved against the dollar. The current exchange rate is about USD 1: GEL 1.8.
- The inflation rate decreased from 7 percent in 2003 to 5.7 percent in 2004, with initial reports for 2005 at 6.2 percent.
- The trade deficit is still large; the overall level of exports and imports increased from USD 1.6 billion in 2003 to USD 2.5 billion in 2004. The trade deficit was USD 1.2 billion. By the third quarter of 2005, trade turnover increased by 29 percent to USD 2.5 billion compared to USD 2.2 billion for the same period in 2004.
- Georgia's principal trading partners in 2004 were (in descending order by trade volume): Russia, Turkey, United Kingdom, Azerbaijan, Germany, Ukraine, Turkmenistan, and the United States. For the last three years Russia has been the largest trading partner for Georgia with 14.5 percent (USD 362 million) trade turnover in 2004. According to data of the Georgian State Department of Statistics, the trade turnover with the United States accounted for 5.3 percent (USD 132 million) in 2004. There are no free trade zones in Georgia. Proposals to establish foreign trade zones/free ports are under discussion but are controversial.
- Georgia has received modest foreign direct investment (FDI) since 1995. The United States has been the largest investor in the country since 1999. In 2004 the United States was the second largest investor (the largest was the United Kingdom) with 16 percent (USD 79.65 million) of total FDI in Georgia. Further attraction of foreign investment in Georgia will depend on the Government's commitment to improve the business climate and facilitate foreign capital investment.
- Georgia's development as a stable, democratic country, increasingly integrated into

the global economy, remains a key U.S. interest in this crossroads region between Russia, Iran and Turkey.

Market Challenges

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- As a result of the porous borders of Georgia's breakaway regions of South Ossetia, Abkhazia, and Adjara, significant smuggling occurred. However, President Saakashvili reasserted Georgian government control over the Black Sea region of Ajara—reducing illicit economic activity there. The GoG has tightened control over the contraband from South Ossetia through improved customs enforcement and closure of markets. However, South Ossetia and Abkhazia are still open to smuggling from Russia through South Ossetia and Abkhazia.
- Georgia's legal regulation is generally favorable to economic growth and development, but implementation remains uneven, and incentives for small and medium enterprises are lacking.
- Enforcement of intellectual and industrial property rights in Georgia is weak, though improving. The business environment is difficult and complex. A good local attorney is, therefore, indispensable for legal transactions.

Market Opportunities

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- The U.S., European Union, Switzerland, Czech Republic, Slovakia, Canada, Japan, and Poland have all granted Georgia the General System of Preferences (GSP) beneficiary status; the U.S. granted Georgia Most Favored Nation status in 2000.
- There are a growing number of young, talented, and Western-oriented Georgians in the rising generation of the country's elite. The availability of a large pool of educated labor combined with low barriers to entry has stimulated the development of the trade and service sectors.
- The evolving economic environment of Georgia and the limited size of the domestic market are considering factors. However, the process of privatizing state enterprises continues to present opportunities for investors, including energy, telecom, banking, agriculture, and infrastructure.
- Georgia is also a fulcrum for East-West energy pipelines. The Baku-Supsa oil pipeline opened in April 1999 and was the first pipeline to carry oil from the Caspian basin through Georgia to markets in the west. Both the Baku-Tbilisi-Ceyhan oil pipeline and the Shah Deniz gas pipeline are progressing; BTC oil has passed the Georgia-Turkey border and the first tanker load should arrive in Ceyhan in early summer 2006. The Shah Deniz gas line should deliver gas in the second half of 2006. Caspian oil also transits Georgia by rail through the port of Batumi.
- As increasing volumes of Caspian oil and Western goods begin to flow through Georgia, the traffic is placing a strain on poorly maintained transport infrastructure. Upgrading transportation infrastructure is a high priority and presents opportunities for related firms.

- There are a series of infrastructure development projects currently under consideration including port concessions, airport upgrades, highway construction, power generation facilities, power-transmission lines, and a rail link between Akhalkalaki - Kars along the southwest border with Turkey.
- The Millennium Challenge Account's infrastructure development mechanisms may present further opportunities in roads, irrigation, and other projects.

Market Entry Strategy

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- Local representation continues to be the most successful way to enter the Georgian market. Personal contacts are important in Georgia. American exporters should consider a visit to Georgia prior to signing a sales contract. There are several U.S.-trained and licensed attorneys and international and local law and business-consulting firms in Georgia.
- A new wave of privatization through tenders and direct sale auctions started in late 2004 and is expected to continue through 2006. Georgia is a country of great potential and one in which relatively modest investment combined with sufficient due diligence can be successful.

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Chapter 2: Political and Economic Environment

For background information on the political and economic environment of the country, please click on the link below to the U.S. Department of State Background Notes.

[U.S. Department of State, Background Notes, Georgia](#)

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Using an Agent or Distributor

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There are no directories, catalogues or commercial centers providing reliable information about local distributors and sales outlets. Most Georgian distributors are small-scale, new to market operations, and their experience is limited to the main cities of Georgia. The most successful way to enter the Georgian market continues to be through the establishment of local representation, and selling directly to Georgian wholesalers and retailers.

Establishing an Office

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- The Law on Entrepreneurship of 1994 as amended in June 2005 outlines procedures for establishing an office in Georgia. Forms of business entities include: sole proprietorship, joint liability company, limited partnership, limited liability company, joint stock company, or cooperative. Opening an office in Georgia requires registration with the local district tax administration. The administration then registers the company into the Unified Register of Entrepreneurs, a public document maintained by the Tax Department under the Ministry of Finance of Georgia. The following information is required for registration: personal information on the founder and principal officers, articles of incorporation, the company's area of business activity, and proof of charter capital. Other required documents depend on the type of entity to be established. Registration fees are minimal, and the tax department is required to complete the registration of a sole proprietorship within one calendar day, and of a company within three days of receipt of required documentation.
- Current legislation does not consider a representative of an international company as a legal entity. However, the registration procedure is the same as for other types of enterprises. Companies should consult with attorneys and accountants prior to

opening a business in Georgia.

Franchising

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Franchising is becoming popular in fast food, production of soft drinks, and retail trading of consumer goods, cosmetics, and apparel in Georgia. The local Coca-Cola Bottling Company began operation in 1994, and its related entity, T&K Restaurants, opened two McDonalds restaurants in Tbilisi in 1999-2000. A Moscow-based Baskin-Robbins franchisee owns and supplies an outlet in Tbilisi. Pepsi opened a plant in May 2004 and distributorships throughout Georgia including Batumi. "My Dollar Store" opened a chain of shops in 2005.

Direct Marketing

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Many obstacles prevent direct marketing from the United States. The mail service is very poor, although UPS, DHL, TNT and FedEx operate in a limited capacity in Tbilisi. Because of an abundant supply of labor and extremely low salary levels, "pyramid selling" techniques have some success—mainly in the field of beauty and health care products (Nutriment House, Irvin Naturals, Nivea, Oriflamme, etc.).

Joint Ventures/Licensing

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There are direct investment and joint ventures many sectors: banking, oil production, generation and distribution of electricity, bottling, packaging, dairy products, non-alcoholic beverages, wine, beer, mineral water, construction materials, real estate, and hospitality. Joint ventures register as a joint stock or limited liability company. Enterprises with more than 50 shareholders must establish in the form of a joint stock company.

The Georgian law on foreign investments identifies the prohibited sectors for foreign investors. These include production and testing of nuclear, bacteriological and chemical weapons and import of nuclear and toxic waste, medical tests on human cloning, narcotics production, import and sale of leaded gasoline and non-standard (falsified) liquid gas for household consumption. Only the Georgian government can invest in banknote production, precious metal stamps, import, export and sale of controlled drugs, and energy dispatch activity. The Law on Licenses and Permits of July 2005 defines the sectors and activities in which investments need prior approval or licensing from the relevant government agencies.

Selling to the Government

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Georgia uses tenders to carry out product procurement contracts exceeding GEL 20,000 (approx. USD 11,000) and service procurement contracts exceeding GEL 50,000 (approx. USD 27,000). The Law on State Procurement requires an international tender announcement for contracts exceeding GEL 600,000 (approx. USD 333,000) for products and GEL 8 million (approx. USD 4.4 million) for services. Budgetary constraints limit the government's purchasing power. International organizations and bilateral governments finance many major procurement purchases. Credit terms are one of the most important factors in government purchasing decisions. Product quality

and supplier reputation are other factors.

Distribution and Sales Channels

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Private sector specialist distribution services are in their infancy, with most importers handling their own distribution. There are chains of retail shops successfully selling western brands of cosmetics, household goods, garments, and electronics and Chinese origin goods, particularly pirated brands. Numerous Turkish trading companies operate successfully in Georgia; opportunities might exist to form alliances with these traders to use an existing network. The majority of retail stores are sole proprietorships with one outlet, but there is growing number of western-style minimarkets. Few have more than two outlets.

Selling Factors/Techniques

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Although American goods enjoy an excellent reputation, price usually is the principal purchasing decision factor. Local entrepreneurs often request concessions in payment terms, such as a credit agreement or barter. American exporters should not extend credit before establishing a long and satisfactory trading history with the customer, and even then should limit exposure. Cash transfers in advance or the use of irrevocable letters of credit through a reputable local correspondent bank is advised. Enforcement of contractual rights through the local court system remains problematic.

Electronic Commerce

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E-commerce is still in its infancy because of limited Internet and credit card penetration. Cardholders can pay electronically for public utilities and buy certain goods. ATM penetration is growing and many bank branches offer ATM services.

Trade Promotion and Advertising

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According to the Advertising Law, which sets advertising standards in Georgia, advertising must be in Georgian, and trademarks in a foreign language need to be accompanied with a text in Georgian.

Pharmaceuticals and medical equipment advertising requires a permit from the Georgian Ministry of Health. Advertising for firearms of all kinds (including sporting arms) requires special permission from the Georgian Ministry of Interior. Alcohol and cigarette advertising is subject to restrictions stipulated in Article 7 of Chapter 8 of the Advertising Law. Local governance bodies supervise and monitor compliance with the Advertising Law.

There are several local advertising agencies, but businesses usually contact TV, press and radio advertising departments directly. There are state TV Channel 1, which is being converted into public TV, and seven independent TV stations. Rustavi 2, Imedi, Adjara TV, and Public TV have nation-wide coverage. Tbilisi-based TV channels and Ajara TV have formed the National Association of Broadcasters, while the smaller regional TV channels have formed the Association of Regional Broadcasters. The major newspapers are *24 Hours*, *Akhali Taoba*, *Akhali Versia*, *Alia*, *Khvalindeli Dge*, *Kviris Palitra*, *Resonansi*, *Sakartvelos Respublika*, *Georgia Today* (English language),

The Georgian Messenger (English language), and the *Georgian Times* (Georgian and English languages). Major periodicals are *The Georgian Business Week* (in Russian and English), *Bank and Finance*, *Banki Plus*, *Finance*, *Macro-Micro Economics*, and *Economics* (in Georgian and English). There are a variety of relatively new magazines in Georgia: the quarterly *Amarta*, the monthly *Tskheli Shokoladi* and *Anabechdi*, and monthly *Caucasus International* (in English). The Association of Regional Publishers, which was founded by the regional newspapers, is based in Tbilisi. The American Chamber of Commerce in Georgia issues the quarterly *AmCham News* magazine in English.

[ExpoGeorgia](#), a local exhibition and conference center offers online advertising service including advertising banners placement, and links on its website.

Pricing

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Because of low purchasing power, the primary selling factor is price. In sectors where American exporters do not enjoy a technological advantage, there is significant price competition from low-cost suppliers in Russia, Turkey, Iran and East Asia. Import of taxable goods and taxable operations at every stage are subject to an 18 percent VAT.

Sales Service/Customer Support

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A growing number of official distributors and individual retailers are offering delivery & installation services as well as issuing their own warranties on big-ticket items usually for up to one or two years. U.S. firms entering the Georgian market will need to consider the logistics of supporting their products in country.

Protecting Your Intellectual Property

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The Georgian Civil Code passed in 1997 establishes the legal framework for copyrights in Georgia. In addition, Georgia passed the Law on Patent and Trademarks in 1999 and signed several major international treaties on protection of intellectual rights. (See Chapter 6 – Investment Climate Statement.) Existing intellectual property rights legislation applies to copyright provisions for literary, musical, artistic, photographic and audiovisual works. Industrial property rights protect inventions, trademarks, industrial design and appellations of origin. The Civil Code, the Law on Entrepreneurship, and other bylaws on industrial property protect firm names. The Georgian National Intellectual Property Center (Sakpatenti) is responsible for matters of intellectual property and for appellations of origin.

Enforcement of intellectual and industrial property rights in Georgia, particularly in retail audio and videotapes, CDs, DVDs, and computer software, is weak, though improving.

Due Diligence

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The business environment is difficult and sometimes unpredictable. As a result of continuing extensive reforms, it is subject to many new laws and presidential decrees. A good local attorney is, therefore, indispensable for legal transaction. DLA Piper Rudnick Gray Cary has recently opened an office in Georgia. Also, Ernst and Young, Price Waterhouse Coopers, and Deloitte & Touche are present in Georgia. In addition, there

are several U.S.-trained and licensed attorneys, local law, business consulting, and auditing firms available. The Consular Section of the American Embassy in Tbilisi maintains a list of local attorneys.

Local Professional Services

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[The Commercial Section – U.S. Embassy in Tbilisi](#) offers a range of assistance to U.S. firms interested in developing market opportunities or increasing their business in Georgia.

Business Consulting:

[Tbilisi Business Service Center](#)

[Georgian Research Institute for Scientific and Technical Information](#)

[Georgian Opinion Research Business International \(GORBI\)](#)

[American Chamber of Commerce in Georgia](#)

[Georgian Chamber of Industry and Trade](#)

[Federation of Georgian Businesses](#)

[DLA Piper Rudnick Gray Cary](#)

[Ernst & Young](#)

[UBC International \(working with PricewaterhouseCoopers\)](#)

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[U.S. Embassy, Tbilisi, Georgia](#)

[American Chamber of Commerce in Georgia](#)

[America Georgia Business Development Council \(AGBDC\)](#)

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Oil, Gas, Mineral Production/Exploration Services

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In USD millions	2003	2004	2005
Natural gas production and distribution services	185*	15 *	20*
Oil and gas, mineral exploration and production	20*	20*	23*
Import of crude oil and oil products	105	186	336
Export of crude oil and oil products	3	9	1
Import of natural gas and aerated hydrocarbons	66	80	91
Export of natural gas and aerated hydrocarbons	4	4	1

Source: Georgian State Department for Statistics.

*Prices calculated at average exchange rate of USD 1: GEL 2.15 (2003), USD 1:GEL 1.92 (2004), USD 1:GEL 1.81 (2005)

There are 12 million metric tons of proven oil reserves, within only a marginal amount exploited. In 2004 production of crude oil was 98 metric tons and oil products 38 metric tons. Domestic natural gas reserves are estimated at 10 billion cubic meters; however, little natural gas is being produced for commercial use – totally 10.9 million cubic meter of gas was produced in 2004. Most of country's demand for oil and gas products is satisfied from imports.

In April 1999 the Baku-Supsa pipeline was opened to transport oil from the Caspian Basin to markets in the west via Georgia's Black Sea terminal at Supsa. The pipeline has an annual capacity of 46,500,000 barrels of oil. The Baku-Tbilisi-Ceyhan (BTC) will be in commercial operation in mid-2006. Azerbaijan and Turkey signed agreements to transit gas from the Shah Deniz gas field near Baku through Georgia. Two billion cubic meters of gas will flow to Turkey by the end of 2006 or early 2007.

Best Products/Services

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The government plans to attract more international companies for exploration and development of on and offshore oil and gas reserves. The Georgian State Agency for Regulation of Oil and Gas Resources is responsible for announcing tenders for oil and gas exploration and production licenses. By law, the Georgian National Oil company (Saknavtobi) participates in all exploration and extraction through production sharing agreements. Georgia announced an international tender to privatize a controlling interest in Tbilgazi, a Georgian Joint Stock Company (JSC) a natural gas distributor in Tbilisi. As of December 2005, the fate of the gas distribution system was unclear.

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A handful of foreign oil exploration companies have reported modest, but encouraging, results, particularly in eastern Georgia. An American firm, Frontera Resources, started oil extraction from an eastern Georgian field in May 1998. The company plans to further extend the exploration works and significantly increase oil production. Other companies

are successfully operating in the east Georgian region of Kakheti. An American firm, Anadarko, has exploration and development rights to several off-shore blocks on The Black Sea.

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[Georgian Gas International Corporation](#)

[Georgian International Oil Corporation](#)

[Georgian National Oil Company \(Saknavtobi\)](#)

Electrical Power Systems

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In USD millions	2003	2004	2005
Total Market Size	4.6	83.2	201.1
Total Local Production	2.9*	3.9*	8.1*
Total Exports	3.4	3.8	3.9
Total Imports	50.1	83.1	196.9
Imports from the U.S.	0.2**	1.4**	0.3**

Source: Georgian State Department for Statistics and post estimates.

*Prices calculated at average exchange rate of USD 1: GEL 2.15 (2003), USD 1:GEL 1.92 (2004), USD 1:GEL 1.81 (2005)

** Estimates based on U.S. Census Bureau data

Best Prospects/Services

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Best opportunities for U.S. companies exist in electricity power generation, transmission, and distribution projects and privatizations. There are also export opportunities for U.S. manufactured equipment and services during rehabilitation, upgrading and management of existing plants. Opportunities for U.S. suppliers will be also in projects financed by multilateral financial organizations and bilateral assistance: the World Bank, the European Bank of Reconstruction and Development (EBRD), the Overseas Economic Cooperation Fund of Japan (OECF), and Kreditanstalt fuer Wiederaufbau (KfW). Procurement occurs in connection with these organizations.

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Georgia currently does not produce power generation equipment, with the exception of some small capacity hydro turbines and electricity meters. Most installed equipment was produced in the USSR, primarily in Russia. The inability of local managers of state-owned power plants to finance the upgrade of their existing equipment impedes the sales potential of western equipment in the local market. The privatization of this sector is expected to increase efficiency and should create opportunities for U.S. investors and exporters. The government plan is to privatize all hydro generation assets except for Enguri Hydropower plant, expand high voltage electricity transmission system, refurbish, and construct new thermal power generation facilities and attract investment to construction of new hydro power generation assets as well as refurbishments.

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[Georgian National Electricity Regulatory Commission](#)

Transportation Services

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Georgia is rapidly rediscovering its "Silk Road" heritage as both the Caspian basin oil and western goods flow through its territory. Georgian infrastructure, developed during Soviet times, was not designed to handle large volumes of East-West transit. Years of low or no maintenance has allowed serious deterioration of these assets. Nevertheless the Georgian Government has identified Georgia's strategic geographic location as a competitive advantage to exploit. The government has proposed a "Eurasia Corridor" that will require substantial investment in refurbishment and expansion of transportation infrastructure including roads, rail, seaport, and civil aviation services. The MCC, World Bank, EBRD, EU and other donors are examining ways to improve the transport, water supply and wastewater treatment infrastructure.

The European Union helped start the Transport Corridor for Europe, Caucasus, and Asia (TRACECA). To date, nine countries are participating in TRACECA: Georgia, Azerbaijan, Turkmenistan, Uzbekistan, Kyrgyzstan, Kazakhstan, Ukraine, Bulgaria, and Romania. These countries have signed bilateral agreements on a preferential trade regime and cargo treatment.

Georgia's external trade by transportation modes in 2004

Mode of transportation	Exports		Imports	
	USD million	Metric tons	USD million	Metric tons
Sea Transport	316	1,375,179	775	1,110,919
Railroad	143	610,533	332	1,149,379
Road transportation	69	181,776	375	397,847
Air transport	114	524	167	3,411
Other transport	2	15	17	138
Postal services	5	7,033	75	35,502

Source: Georgian Department for Statistics

Airports. The five principal airports of Georgia are located in Tbilisi (3,000 meter runway), Kutaisi (2,500 m), Batumi (2,420 m), Senaki (2,400 m), and Poti (1,500 m). Several smaller airports are currently inactive. In 2004 the volume and the turnover of the cargo transported by air have increased by 23 percent and 37 percent respectively. The number of passengers increased from 188,000 in 2003 to 230,000 in 2004. Tbilisi airport is the principal international airport, and is served by a Georgian flag carrier Georgian Airways (formerly Airzena), British Airways, Lufthansa, Turkish Airlines and Austrian Airlines, among others. A major rehabilitation and expansion of the Tbilisi Airport is underway.

Ports. The two major Black Sea ports are located in Poti and Batumi, with a depth of 11 and 12 meters, respectively. Shipments of cargo via Poti and Batumi decreased by 7.6 percent to 13.4 million tons in 2004. Georgia has rail ferry links with Ukraine, Romania, Russia and Bulgaria. Privatization and rehabilitation of Poti and Batumi ports is seen as an integral part of the development of the "Eurasian Corridor" across Georgia. The U.S.

Government provided technical assistance to Georgia to restructure and privatize Poti port. The deepwater port of Sukhumi in Abkhazia currently is not under the control of the Georgian government.

Roads and Railroads. In 2004 rail cargo volume reached 15.4 million tons. Rail cargo volumes are constrained in western Georgia because of technical issues such as limited track capacity, and lack of access to Russian markets because of the conflict in Abkhazia.

Best Prospects/Services

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Georgia is receptive to private foreign investment to upgrade its transport infrastructure. The State Department of Roads of Georgia and Transport Reform and Rehabilitation Center implemented a World Bank financed roads rehabilitation and construction project on all major trunk roads in Georgia. A second WB program is underway to rehabilitate of the secondary roads in Georgian regions. Major opportunities are available for American firms involved in infrastructure development and in transportation services. The MCC is planning a roads project in Samtskhe Javakheti.

Opportunities

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Proposed construction and upgrading of the Akhalkalaki-Kars rail link with Turkey, Tbilisi and Batumi airports, and a highway between Tbilisi and the Black Sea towns of Georgia are expected to significantly improve the transport infrastructure, decrease the time required for transportation, and support the development of trade and tourism. Project financing of Akhalkalaki-Kars rail link is still undecided.

Resources

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[Ministry of Economic Development](#)

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Tourism Infrastructure Services

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There is substantial potential for tourism in Georgia. Great natural beauty, varied topography, pleasant climate and rich culture and history helped Georgia attract over 3.5 million tourists a year in Soviet times. This number has fallen precipitously since the collapse of the Soviet Union. The tourism infrastructure has deteriorated, leaving most resorts in a state of near-collapse. A lack of experience with modern tourism and market economy principles creates another set of challenges to developing the sector. In 2004 the number of visitors increased by 17.5 percent to 368,300 visitors over 2003. To facilitate tourism, the Government of Georgia has eased visa regimes, started rehabilitation of roads, privatization of infrastructure and hotels, improving safety and has established limited tax incentives for tour operators. Progress toward a peaceful resolution of separatist conflicts will also encourage growth in this sector.

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The few operators currently active in Georgia report growth in demand both summer and winter, particularly in the niche of adventure and cultural tourism. They also note that they are hampered in meeting present demand by the lack of suitable accommodations outside of the capital, where resort facilities have not been maintained. Major privatizations of resort properties in 2005 (and ongoing) particularly on the Black Sea coast in Ajara indicate renewed interest from foreign investors, particularly from Kazakhstan.

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Development of tourism infrastructure will require significant investment in rehabilitation and development of the tourism-related assets, such as hotels, restaurants, sport facilities, and ski resorts. Rehabilitation of several recently privatized hotels is underway in Tbilisi and Ajara.

The World Bank's roads rehabilitation and construction project aims to help tourism by decreasing travel time increasing auto safety. The World Bank is implementing a long-term program aimed at nature conservation, cultural heritage preservation and sustainable tourism development. USAID is working with concessionaires in and around national parks to develop hospitality industry skills and orientation outside the capital.

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[Georgian State Department of Tourism](#)

[Georgian National Investment and Export Promotion Agency](#)

Telecommunications Equipment

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In USD millions	2003	2004	2005
Total Market Size	35.1	45.4	66.6
Total Local Production	0.1	0.2	0.2
Total Exports	1.0	1.1	0.4
Total Imports	36.0	46.3	66.8
Imports from the U.S.	1.3	2.7	6.1

Source: Georgian State Department for Statistics and post estimates. *Prices are calculated at average exchange rate of USD 1 – GEL 2.15 (2003), USD 1 – GEL 1.92 (2004), USD 1 – GEL 1.81 (2005.) ** Estimates based on U.S. Census Bureau data

The independent self-financed Georgian National Communications Commission (GNCC) regulates telecommunication and postal services in Georgia. The commission sets up service fees for license holders, auctions and regulates the radio frequency spectrum, regulates interconnection of the telecommunication networks, and provides certification, standardization and metrology services.

Georgia's telecommunications sector requires modernization to comply with the growing market demands. Major international investors in this sector have been the U.S., Korea, Turkey, and Israel. There are also two international cellular phone companies: Magti (U.S.) and Geocell (Turkey.) Both use the GSM system. As of January 2005, the number of cellular phone users was 800,000 (every fifth Georgian had a cellular phone.) That is a 42 percent increase compared to January 1, 2004. Cellular penetration is highest in Tbilisi.

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Telecommunications has become one of the most attractive sectors for foreign investors as a result of growing market demand and revenues generated by local operators. In 2004 telecommunications became the fastest growing sector with 25.5 percent growth in revenues, which is still below its potential – telecommunications contributed only 4.2 percent to GDP. Expansion of telecommunications infrastructure at the national, regional and international levels is seen as an integral part of Georgia's economic development and its successful integration into the global economy.

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Cellular telecommunication services have been the most profitable sub-sector. Georgia does not produce telecommunications equipment.

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Computer Services

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Georgia is a modestly computerized country with a good supply of professional, inexpensive labor and a number of companies involved in information technology. The IT sector is experiencing impressive growth in Georgia. The number of companies involved in the IT sector has doubled and the number of Internet users has tripled in 2004 compared to 2003. Presently, there are about 120,000 Internet users in Georgia, almost 95 percent of which are in the capital. Internet use in rural areas is concentrated among international NGOs and private companies. Almost half of all organizations and businesses have access to the Internet, although access outside of Tbilisi is generally very poor. Local governments and households in villages and remote areas are not using the Internet because of low income, poor infrastructure and electricity shortages. It is unlikely, that the number of Internet users in these areas will grow rapidly in the near term.

Best Products/Services

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The majority of IT companies are involved in retail trade, including software producing companies. Computers assembled in Georgia remain a popular sales item. There are service centers for Hewlett-Packard, Compaq, APC, and Xerox. Several companies provide network installation. The following network providers offer Internet services: Sanet, Georgia Online, Telenet, Wanex, Caucasusnet, and Geonet. American-owned United Global Technologies provides solutions in the field of information and communication technology.

Opportunities

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The IT sector is experiencing impressive growth: number of IT companies has increased from 20 in 2003 to 45 in 2004; number of computer users from 70,000 to 200,000; and the internet users from 35,000 to 120,000. The demand for quality IT services and products has increased significantly over the last several years. It stimulated trade and investment in this sector. Total market size of the information and communication technology sector is estimated at USD 300-350 million. Major end-users of IT products are Georgian government agencies, banks and other large and medium corporations.

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Architecture/Construction/Engineering Services

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New construction and renovation in Tbilisi and construction of the Baku-Supsa, Baku-Tbilisi-Ceyhan, and Shah Deniz pipelines have led a revival of the construction industry in recent years. Other energy-related construction and rehabilitation projects are under active consideration. In addition, necessary upgrades of transportation and tourism infrastructure will continue to create demand for construction services and building materials for the near future. Total output of the sector in 2004 has increased by 7.5 percent to GEL 693.7 million (about USD 285) compare to 2003.

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There is significant activity in building and upgrading housing, hotels, restaurants, offices and infrastructure projects. The demand for construction materials has increased correspondingly.

Opportunities

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Modest growth of the middle class and increased access to credit has increased the demand for quality housing and corporate/business infrastructure and real estate. The prices have increased by 200 percent for the residential and 300 percent for the commercial real estate since 2003. Demand is expected to grow in the following next years. Additionally, following the earthquake in Tbilisi in April 2002, there is increased interest in not only rebuilding sections of the city, but in locating firms with expertise in building standards that improve earthquake resistance. The Tbilisi city government is considering teams to develop various areas of Tbilisi for targeted projects.

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Mining Industry

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Georgia has a wide spectrum of mineral resources and there is potential for development in the mining industry. In 2004, production in mining sector has slowed down by 13 percent and made up 0.8 percent of GDP. Low-cost, skilled labor and tax exemptions for production of goods for export are just some of the advantages of doing business in Georgia. However, attraction of foreign investment in the mining sector will depend on the Government's commitment to improve the business climate and facilitate foreign capital investment

USD millions	2003	2004	2005
Total Market Size	6.21	2.26	9.04
Total Local Production	0.1*	0.1*	0.5*
Total Exports	0.72	2.7	5.82
Total Imports	6.83	4.86	14.36
Imports from the U.S.	0.9	0.2	-

Source: Georgian State Department for Statistics, U.S. Census Bureau and post's estimates. *Prices are calculated at average exchange rate of USD 1 – GEL 2.15 (2003), USD 1 – GEL 1.92 (2004), USD 1 – GEL 1.81 (2005)

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U.S. equipment and technology have an excellent reputation in Georgia. Presently, existing mining technology and equipment are either obsolete or inoperable, with a few notable exceptions, including manganese processing. Mining equipment for prospective joint ventures with international companies, which have a preference for high quality, reliable, western machinery, offers the best prospects.

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Any foreign company or person can obtain the right to mine unexplored deposits. Georgia has significant deposits of high-grade manganese, which have been extracted from the Chiatura region for over a hundred years, and are processed and exported for use in a variety of products. There are deposits of coal in Tkibuli, Ambrolauri, and Ochamchira regions, and non-ferrous metal ores such as copper, lead, and zinc in Kvaisa and Kazreiti. There are also some deposits of arsenic, cobalt, tin, aluminum and other non-ferrous and rare metals such as gold and silver. There are deposits of a number of high quality raw materials used in the chemical industry such as: barite, diatomite, agate, bentonite, clays, andezite, talcum, and calcite.

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Agribusiness

Georgia's fertile soil and good climate are favorable for production of a wide variety of high value agricultural products, including grapes and wine, nuts (hazelnuts, almonds, walnuts, chestnuts), citrus fruits, and apricots. Russia receives most of the exports, but new European markets are developing. Georgia also grows an increasing quantity of commodities, including vegetables, corn, and other crops, all of which are primarily for domestic consumption. The number of livestock in 2004 grew, including cattle, pigs, sheep and goats, including their byproducts. However, Georgia continues to rely on powdered milk, meat products, and wheat imports. Because of poor weather conditions in 2004, agricultural production dropped by 6.7 percent and agriculture as a share of GDP dropped from 19.3 percent in 2003 to 16.2 percent in 2004.

Until recently the state held legal title to all agricultural land, which farmers leased from the state. This prevented farmers from using the land as collateral against loans to expand and improve. With no market for agricultural land, it has been impossible to consolidate or expand holdings into more efficient units, with plots averaging less than one hectare. However, the government has completed work on registration and titling of small farm holdings in order to confirm ownership transfer from the state, except in the breakaway regions of Abkhazia and South Ossetia, and the autonomous Adjara. Several international donors, most notably the U.S. and German Governments, have sponsored micro-lending programs in an effort to extend credit to farmers, as the lack of local credit sources has also constrained development in this sector.

As a result of land reform, the Georgian government has privatized 25 percent and leased about 30 percent of the country's arable land. A new law on Privatization of State-owned Agricultural Land that was passed in July 2005 is expected to increase efficiency and output in the agricultural sector.

Food Processing & Packaging

Georgia is near potential export markets and high quality raw materials, making it a good location for food processing. This sector is growing steadily, with a proliferation of Georgian-brand products—wine, beer, dairy, fruit juices and mineral waters—filling local stores. Several years ago Georgia imported the majority of such products. Georgia has a history of producing an abundance of high-value locally produced agricultural goods, although it is only recently that improved processing and packaging technology has made these products attractive for both domestic and export sales. Georgian still and sparkling wines and spirits have long enjoyed an excellent reputation in the former Soviet Union, and improved bottling and packaging now allows Georgian firms to sell to a wider export market. The U.S. Government recently launched a five-year program to support local value added enterprises in promoting agricultural products aimed at international markets.

There are opportunities for U.S. leasing companies and exporters of food processing and packaging equipment for fruits, nuts (particularly hazelnuts) vegetables, citrus, meat and dairy products. Based on information provided by local authorities and managers,

the best sales prospects are for small and medium capacity bottling lines, production plants for wine and juice and machinery for tea processing and packaging. Additional prospects involve seed crushing and oil refining machinery. There is also demand for mini-bakeries and machinery for the manufacture of confections. Price and payment terms are important factors affecting the end user's purchasing decision. In many cases, the lease or purchase of used equipment may be a means by which local enterprises can acquire plant machinery and equipment for restarting production.

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Import Tariffs

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Invoice-based customs tariffs range from 0 to 30 percent, but some goods manufactured in WTO member countries are exempt from this. Customs revisions will reduce these to three bands in 2006: 0, 5, and 12 percent, to two bands in 2007: 0 and 5 percent, and to zero tariffs in 2008. The following goods and products are exempt from customs tariff, regardless of the country of origin. *:

- Cigarettes, but are subject to other additional regulations;
- Wheat, baby food and diabetic food products;
- Raw materials intended for manufacturing export goods;
- Sixteen specific pharmaceutical goods;
- Goods valued at less than GEL 300;
- Goods financed by grants or concession credit by a foreign government or international organization, which includes at least 25 percent of the grant share;
- Humanitarian assistance;
- Goods for diplomatic missions;
- Aviation fuel, lubricants, and other technical goods for international flights;
- Literature and scientific works by Georgian citizens and classicists published abroad;
- Disinfectants;
- and Grain.

An 18 percent VAT applies to imported goods, and an excise tax between 5 and 100 percent applies to certain goods such as alcoholic drinks, ethyl alcohol, ethyl petrol for cars, vehicle tires, and caviar. Imported cigarettes have a fixed tax in lieu of VAT and excise. Georgia has a free trade regime with Newly Independent States (NIS), and requires a certificate of origin for the product. Parliament can authorize the Customs Department to impose special and seasonal taxes on certain imports for a period not to exceed six months. Passenger car imports have a fixed customs rate, and are except from the Value-Added Tax (VAT).

* Article 18 of the Law on Customs Tariff and Duty has a complete updated list.

Import regulations in Georgia are subject to change. Importers and agents are advised to contact the Georgian Customs Department prior to shipping goods in order to verify the current tariffs. A customs service fee of 0.2 percent has a GEL 50 minimum and a GEL 2000 maximum applies to both imports and exports, although exported goods are free from other customs duties.

Trade Barriers

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Georgia requires permits for importing and exporting and certain imported goods require a license. Georgia issues both permits and licenses to any locally registered enterprise, firm, or individual. Licenses defined in bilateral or international agreements issued outside Georgia may be acceptable. A June 2005 law on licenses and permits decreased the number of licenses and permits from 909 to 159 and eased the application procedure, which is now based on a “one-window” principle. The law stipulates 20 or 30 days for permit and licenses issuances, respectively.

Import Requirements and Documentation

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Imports require an invoice and certificate of origin. The certificate needs confirmation by the exporting country authority. Further, accompanying documentation should prove the product meets category-specific Georgian quality, safety, and technical norms.

U.S. Export Controls

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Exporter must file a "Shippers Export Declaration" for items exceeding \$2,500, but waivers are available for certain merchandise. There are restrictions for military and defense equipment, which may be “dual use” items. For more information, please see <http://www.export.gov/exportcontrols.html>.

Temporary Entry

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Designated warehouses may store goods under customs control for up to one month. Customs duty and service fees apply to the temporary entry of goods into Georgia for less than one year, although importers may apply for an extension. The Customs Department requires a bank guarantee or cash deposit if the goods are subject to VAT. Annual extension of temporary entry is subject to the same requirements. Individuals engaged in re-export of goods must submit a bank guarantee and pay all applicable taxes or leave the equivalent in goods at the customs check point. According to the Georgian Customs Code, the Customs Department must reimburse the payment, return the goods left as a guarantee, or pay a cash equivalent after the re-exported product leaves Georgia. There is a customs service fee for inspection and clearance of goods in transit, and temporary entry, including goods intended for exhibition. Goods transported through the territory of Georgia are exempt from customs duty, VAT and excise taxes.

Labeling and Marking Requirements

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Producers must affix excise stamps to alcoholic drinks and tobacco products at the point of production.

Prohibited and Restricted Imports

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Georgia follows international conventions that prohibit certain imports, and also prohibits the import of goods that pose a threat to the health and safety of Georgia or its citizens, including for example, narcotics, pornography or nuclear materials. Weapons and ammunition have complex licensing requirements, and interested parties should contact the Ministries of Justice and Internal Affairs prior to any importation.

Customs Regulations and Contact Information

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Georgia uses the Harmonized Code System (HS96) at the six-digit level (plus CIS Code System at the last three digit level) for tariff classification, but will eventually convert to HS2002 at the eight-digit level (plus three last digits from the CIS Code System). A new Customs Code should bring the Georgian customs regulation in compliance with WTO requirements in 2006. Information on customs regulations and contacts is available on the [Georgian Customs Department](#) website.

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The old Soviet system of product standards—numbering at least 26,000—still applies in theory. In practice, any product, which meets an acceptable American, CIS, or EU standard, should have no difficulty in the Georgian marketplace. Any American exporters encountering standards-related problems should contact the Commercial Section of the U.S. Embassy. Georgian authorities may eventually develop new standards and requirements.

Standards Organizations

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NIST Notify U.S. Service

WTO member countries are required under the Agreement on Technical Barriers to Trade (TBT Agreement) to report to the WTO all proposed technical regulations that could affect trade with other Member countries. **Notify U.S.** is a free, web-based e-mail subscription service that offers an opportunity to review and comment on proposed foreign technical regulations that can affect your access to international markets. Register online at Internet URL: <http://www.nist.gov/notifyus/>

Conformity Assessment

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The Georgian State Accreditation Center is responsible for testing goods requiring a special testing procedure. The time required for testing goods subject to certification

may vary depending on the type of these goods. The law no longer requires obligatory local testing of goods.

Product Certification

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The certificate of origin and the health certificate (where applicable) issued by the country of origin are sufficient for importing goods into Georgia. The National Health Disease Control Center under the Ministry of Health and Social Security is responsible for developing a list of restricted imports and countries of origin from which imports are restricted or banned. The State Sanitation Control Inspection is responsible for monitoring restricted imports.

Accreditation

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In June 2005, the government split the former accreditation department into two agencies—National Agency of Technical Norms of Standards and Metrology, and Accreditation Center—abolishing obligatory conformity certification. Georgia still needs to develop norms for these agencies.

Publication of Technical Regulations

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Labeling and Marking

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All cosmetics, pharmaceuticals, chemicals, processed food, and utility products must have Georgian language labeling.

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Trade Agreements

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At present, Georgia has a free trade regime with eight Commonwealth of Independent States (CIS) countries. The U.S. Turkey, Switzerland, Norway, Canada, and Japan all granted Georgia GSP status, with the EU granting GSP+. Georgia became a member of the World Trade Organization in June 2000.

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Introduction

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The dramatic change of government swept in by 2003's peaceful "Rose Revolution" marked the start of serious political and economic reform in Georgia. Since 2004, the Georgian government has undertaken institutional reforms including the restructuring and downsizing of government ministries, privatization of large state-owned entities, payroll increases for public servants, anti-corruption measures, improvements in tax and fiscal administration, licensing reforms, deregulation, customs reform, and other efforts to reduce opportunities for corruption and make it easier to do business in Georgia.

Fundamental macroeconomic policy has received clear government commitment, and stable macro-economic performance since late 2003 has laid the foundation for further reforms. Based on strong financial policies and productive relations with the IMF and other international financial institutions, macroeconomic performance has been strong and steady; estimated GDP growth in 2005 was 9.3%, up from 6.2 % in 2004 and 8% in 2003. However, GDP per capita remains low at about \$1480 in 2005. Inflation for 2005 was about 6%.

The IMF completed its third review of Georgia's performance under a three year program (2004-2007) supported by a Poverty Reduction and Growth Facility. The review noted that the Georgian government has advanced its structural reform agenda by upgrading revenue administration, promoting transparency in government operations, and facilitating private sector activities, but noted that further progress is needed to safeguard fiscal sustainability and transparency, enhance growth prospects and

encourage additional private sector investment. According to the IMF, the Georgian government's spending priorities for 2006 will focus on upgrading infrastructure and providing a more reliable energy supply.

The Georgian Lari has been steady at 1.82 to the U.S. dollar since late 2004. The Georgian National Bank – Georgia's central bank – has limited independence, and monetary policy lacks market instruments at this time. Based on overall performance and the Georgian government's strong political commitment to structural changes, Georgia received its first sovereign credit rating in late 2005 from Standard and Poors -- B+ long term, and B short term rating. Other studies and rankings done by international organizations such as the International Financial Corporation, World Bank/EBRD, and the Heritage Foundation have noted significant improvements in democracy, governance, and the business climate.

The microeconomic picture shows slow progress. Georgia must cope with increased unemployment caused by state layoffs, deep social spending needs, and an economy made uncompetitive by years of neglect and poor policy. Physical infrastructure is badly outdated and deteriorated after more than a decade of neglect and corrupt management by the previous government. These substantial needs represent both an opportunity and an impediment to investment and growth. Although Georgia's financial sector is growing well and is considered generally healthy, access to credit for consumers is still limited, and hampered further by weak external liquidity of the banking sector.

Internal conflicts with Russian-supported separatist regions Abkhazia and South Ossetia in the 1990's led to the displacement of hundreds of thousands of Georgians, who remain a serious burden for the state. The two conflicts remain in cease-fire status, under the watch of mostly Russian peacekeepers. Recognizing that peaceful integration of these conflict areas and the restoration of Georgian territorial integrity and Georgian control of Georgia's borders are crucial to the economic and political future of the country, President Saakashvili has put forward a peace plan for South Ossetia and begun to take unilateral actions to diffuse the situation in both regions. The international community supports these efforts, and there is hope that the formerly "frozen conflicts" may be resolved in coming years.

Relatively low western investment since independence from the Soviet Union in 1991 has translated into slow progress until recently against corruption and Soviet-era management styles. U.S. assistance has focused on the goals improving governance and the administration of government economic and financial institutions, improving critical physical infrastructure, and efforts to enhance private sector competitiveness and promote the growth of a free market economy.

President Saakashvili and his government have strengthened bilateral relations with many countries, reaching out to Ukraine, Turkey, Italy, Poland, Latvia, Lithuania, Estonia, Japan, Kazakhstan, the UK, Germany, the Netherlands, and of course, the United States. Progress towards NATO and EU membership are key Georgian foreign policy goals, and Georgia is making an effort to harmonize its regulatory environment with international commitments and in particular with comparable EU standards. These growing ties serve as an additional incentive for foreign businesses intending to come to the region. Development of regional energy projects, including the Baku-Tbilisi-Ceyhan oil pipeline and the Shah Deniz gas pipeline, have strengthened Georgia's ties with its

neighbors and showcased its ability to undertake and host world-class infrastructure projects.

Georgia's eventual success will hinge on a deeper transformation to a market orientation supporting free and fair competition – both by government institutions and the private sector. In particular, judicial corruption and a lack of familiarity with Western business practices and legal norms require further attention. Businesses, including the American Chamber of Commerce, have noted a marked improvement in the business climate, but report that positive change is still needed in the sometimes ambivalent relations between the private sector and the government. A high level of mutual government - private sector distrust is one of the legacies of pervasive corruption. Donor assistance to law enforcement entities such as the financial police have begun to address problems of sometimes over-zealous enforcement, and the private sector has begun to show interest in adhering to standards of business ethics. Further efforts like these will help capitalize on the structural economic reforms already underway.

Openness to Foreign Investment

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Georgia has made considerable progress towards establishing the legal underpinnings of an open and competitive market. The country has begun to develop a regulatory framework intended to foster competition. Legislation governing foreign investment rapidly in Georgia, and establishes favorable conditions - but not preferential treatment - for foreign investors. There are no preferential incentives for foreign investors or small enterprises. The Law on Promotion and Guarantees of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investment for a period of ten years. There are currently no preferential tax incentives available to foreign investors in Georgia.

Legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other legislation aimed at ensuring the free and efficient operation of business entities includes: the Law on Entrepreneurs; the Law on Promotion and Guarantees of Investment Activity; the Bankruptcy Law; the Law on Courts and General Jurisdiction; the Law on Limitation of Monopolistic Activity; the Law on Customs, Tariffs, and Deputies; the Accounting Law; and the Securities Market Law. Georgia has negotiated 31 double-taxation agreements, but only 13 have entered into force. These active agreements are with Uzbekistan, Azerbaijan, Ukraine, Romania, Bulgaria, Turkmenistan, Armenia, Kazakhstan, Iran, the Netherlands, Greece, Italy and Belgium. The remaining agreements still need to be ratified by at least one of the parties.

The legal framework governing ownership and privatization is provided by the following acts: the Civil Code; the Law on Ownership of Agricultural Land; the Law on Private Ownership of Non-Agricultural Land; the Law on Management of State-Owned Non-Agricultural Land; and the Law on Privatization of State Property. Property rights in the extractive industries are governed by the Law on Concessions, the Law on Deposits and the Law on Oil and Gas. Intellectual property rights are protected under the Civil Code, and by the Law on Patents and Trademarks. Financial sector legislation includes the Law on Commercial Banks, the Law on National Banks and the Law on Insurance Activities.

Regulated, Licensed, and Restricted Sectors

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In 2005 the Law on Licenses and Permits was passed, which, once fully implemented, will drastically reduce the number of agencies involved in issuing licenses and restricting licensing to only those activities that affect public health, national security and the financial sector. Licensing currently is required in the following areas: weapons and explosives production; narcotic, poisonous and pharmaceutical substances; exploration and exploitation of renewable or non-renewable substances; exploitation of natural resource deposits; establishment of casinos and gambling houses and the organization of games and lotteries; banking, insurance; issuance of securities; wireless communication services; and the establishment of radio and television channels. The state must retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defense and weapons industries, and nuclear energy. Only the state may issue currency and banknotes, certificates on goods made from precious metals, import narcotics for medical purposes, or produce control systems in the energy sector.

In 2005, the business registration procedure was simplified. Paperwork was reduced, fees reduced, and processing time shortened to about 8 – 10 days from the submission of documents. All companies are required to register with the Ministry of Finance, providing founder's and firm principals' names, dates and places of birth, occupations and places of residence; incorporation documents; area of activity; and charter capital. This information, stated on a registration card, is subject to publication. Any person may request and review business registration information. Business registration and tax registration are separate procedures handled by the same department within the Ministry of Finance.

Conversion and Transfer Policies

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Foreign investors may freely convert or transfer any amount of funds associated with an investment into hard currency. Foreign investors have the right to hold foreign currency accounts with authorized local banks. The sole legal tender in Georgia is the Lari (GEL), which is traded on the Tbilisi Interbank Currency Exchange and in the foreign exchange bureau market.

After paying all applicable taxes, there is no limit on the inflow or outflow of funds for remittance of profits, debt service, capital, capital gains, returns on intellectual property or imported inputs. Several banks participate in the “Swift” and Western Union interbank communication networks.

Expropriation and Compensation

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The Georgian Constitution provides for protection of ownership rights, specifically the universal rights to ownership, acquisition, disposal or inheritance of property. Foreign citizens living in Georgia possess rights and obligations equal to those of the citizens of Georgia. The Constitution allows restriction or revocation of property rights only in cases of extreme public necessity, and then only as directly allowed by law. Georgian law

prohibits expropriation of foreign investments, except in cases involving natural disasters, and other cases of force majeure and epidemic emergencies. A case of expropriation in 2004 was later overturned by the Supreme Court.

In cases of expropriation, Georgian law requires the Government to offer full compensation pursuant to the decision of a court of law. Compensation must be paid without delay and should include both the value of the expropriated property as well as the loss suffered by the foreign investor as a result of expropriation.

Creditors may initiate bankruptcy suits against debtors and receive reimbursement from the bankrupted company (after meeting the minimal needs of the bankrupted company as defined by the court). The Law on Promotion and Guarantees of Investment Activity provides for reimbursement to creditors in Lari.

Dispute Settlement

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Georgian law allows disputes between a foreign investor and a governmental body to be resolved in Georgian courts or at the International Center for the Settlement of Investment Disputes (ICSID), unless a different method of dispute settlement is agreed upon between the parties. Under the U.S. – Georgia Bilateral Investment Treaty (BIT), investors have additional rights. If the dispute is not considered at ICSID, the foreign investor has the right to submit the dispute to an ICSID supplementary institution or to any arbitration agency founded in accordance with arbitration rules of the Commission of the United Nations for International Trade Law (UNCITRAL).

Georgia is party to the International Convention on the Recognition and Enforcement of Foreign Arbitration Awards. As a result, the Government agrees to accept binding international arbitration of investment disputes between foreign investors and the state. The Ministry of Justice was designated in December 2005 to oversee the government's interests in arbitrations between the state and private investors.

According to the Ministry of Justice, three foreign investors have cases pending in international arbitration against the government of Georgia, each over the rescission of previous privatizations which were subsequently awarded by the current government, often years after the initial sale, to other buyers at higher prices. The total value of these three pending arbitrations is over \$400 million. A fourth case has been brought to arbitration in Russia involving claims of Georgian government non-payment and counter claims by the Georgian government of abrogation of responsibilities by the purchaser under a privatization agreement.

Performance Requirements and Incentives

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Performance requirements are not a condition of establishing, maintaining or expanding an investment, but have been imposed on a case-by-case basis in some privatizations – for example maintenance of employment levels, or commitment to additional investment in the enterprise within a specified period of time. While many privatizations have proceeded smoothly and regularly, the current government has used non-fulfillment of

performance requirements to justify rescissions of previous privatizations and re-privatize enterprises, usually for higher prices, and to the benefit of other interested parties.

Right to Private Ownership and Establishment

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Private entities may freely establish, acquire, and dispose of interests in business enterprises, and foreign and domestic private entities have the specific the right to establish and own business enterprises and to engage in all forms of remunerative activity. In conjunction with this law, a number of sector-related laws regulate business activity in the banking, agribusiness, energy, transport and tourism sectors.

Privatization

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In the summer of 2004, Georgia's Ministry of Economy announced a sweeping privatization campaign to attract significant foreign investment. A list of entities to be privatized can be found on the website www.privatization.ge, although the list is not comprehensive and some objects not listed, like Georgian Shipping Company, have been tendered as well. The 372 entities to be privatized between 2004 and 2006 included both fully and partly state-owned large enterprises, including Madneuli gold and copper mining company, Telecom and Elektrokavshiri (telecommunications objects), hydroelectric stations, Chiatura Manganese factory, Zestaponi Ferroalloys, Rustavi Metallurgy plant, aviation manufacturer Tbilaviamsheni, complexes of resort hotels both on the Black Sea and in the mountainous areas of Borjomi and Bakuriani, governmental residences, hotels in Tbilisi, and others. Privatization of the national railroad, and energy facilities in conflict zones (including the Enguri hydroelectric power station near the border with Abkhazia) is not planned at this point.

The Law on Privatization of State Property, adopted in May 1997, recognizes four forms of privatization: tender, auction, and lease buy-out or direct sale. The Ministry of Energy and the Ministry of Economic Development have identified several important energy generation and distribution for privatization in 2006. Further information on privatization opportunities is available at www.privatization.ge.

While many privatizations have proceeded smoothly and regularly, questions have sometimes arisen over the methods used in some cases, particularly the use of direct sale and the tendency to negotiate with buyers previous to auction procedures. It is the practice of the government to negotiate specific terms and conditions (the contract) with a successful bidder after award of the bid. Some privatizations have failed in the negotiation phase as previously unavailable information is brought to light (including for example, liabilities and debts). The current government has used non-fulfillment of performance requirements to rescind previous privatizations and re-privatize enterprises, usually for higher prices, and to the benefit of other interested parties. According to the Ministry of Justice, three foreign investors have cases pending in international arbitration against the government of Georgia, each over the rescission of previous privatizations by the current government, which then resold the properties to other buyers at higher prices. The total value of these three pending arbitrations is over \$400 million.

Despite the legal underpinnings for protection of commercial activity and of property rights, in practice, inadequate protection of contracts and property rights are problems encountered by the foreign investment community in Georgia. Foreign investors' interests have sometimes been harmed by biased court proceedings, legislation and decrees that clearly favor the Georgian entity or partner involved in the enterprise. Judicial reform has been identified as a top priority for the Georgian government beginning in late 2005, but it will take some time for court and legal reforms to bear fruit.

Disputes sometimes centered on alleged illegal or improperly handled privatization and bankruptcy proceedings, and in at least two cases, questionable procurement procedures by government entities. Other disputes involve the liability of the foreign investor for debts and taxes incurred by a Georgian enterprise before privatization or bankruptcy. Such disputes have often involved alleged manipulation of corporate legal documents to the detriment of the foreign investor.

Disputes over investors' rights made press headlines frequently in 2004 and 2005. These cases have undermined confidence in the impartiality of the Georgian judicial system and rule of law, and by extension, Georgia's investment climate.

Both foreign and Georgian investors have expressed reservations about the competence, independence and impartiality of lower court decisions. In a few cases lower court decisions have changed control of enterprises on questionable legal grounds. Sometimes these decisions have been reversed by higher courts or government action.

In 2004, the Supreme Court abrogated the property rights of the real estate company with 65% American ownership, to a centrally located plot of land in downtown Tbilisi in favor of a national union. The Supreme Court later cancelled its 2004 decision and returned the case to the District court for review. In 2005, a further Supreme Court ruling restored the property rights of the company.

In another example, a foreign investor in the telecommunications sector effectively regained control lost earlier to a local partner in a lower court action through a higher court ruling. Another court decision that invalidated the acquisition of a foreign investor was later overturned only by presidential decree. In June 2004, the Tbilisi Municipality revoked the results of a 2003 tender by the World Bank that awarded management rights of the Tbilisi Water Supply Company to a foreign company. According to the Mayor's office, the tender had been conducted incorrectly and was therefore rescinded.

Georgia is making slow but steady progress on its intellectual property rights (IPR) protection in accordance with its TRIPS Agreement obligations. Georgia acceded to WTO and the TRIPS agreement in 2000. Prior to accession, the Georgian Parliament adopted six major laws regulating intellectual property (IP). These include: the Law on Patents, Law on Trademarks, Law on Copyrights and Neighboring Rights, Law on

Appellation of Origin and Geographic Indication of Goods, Law on Topographies of Integrated Circuits, and Law on IP Related Border Measures. Georgian law now provides retroactive protection for works of literature, art and science or sound recordings. Amendments to various laws in 2004 – 2005 helped harmonize Georgian legislation with the EU, and improve TRIPS compliance.

In 2004, the Georgian parliament ratified the Rome Convention for Protection of the Rights of Performers, Producers of Phonograms and Broadcasting Organization, and the Lisbon Agreement on Denomination of Origin. In 2005, Georgia joined WIPO International Convention for the Protection of New Varieties of Plants. Georgia is a party to the Bern Convention, member of the two WIPO digital treaties – Copyright Treaty and Performance and Phonograms Treaty, the Hague Agreement, and Budapest Treaty Concerning the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedures.

While Georgia has brought its legislation into line with international standards, enforcement remains problematic. Responsibility for WTO compliance issues will be transferred to the Ministry of Economic Development in 2006. The Customs Department is developing a new Intellectual Property Objects Register to assist in identification of counterfeit goods at the border, but IPR awareness in the Department is low and hampered by frequent personnel changes. Further clarification of responsibilities between the Ministry of Internal Affairs and the Ministry of Finance is needed, as the MOIA has authority over some types of property rights protection, and the Ministry of Finance over others. Judges and lawyers lack training in IPR and related technology, likewise, Georgia's Patent and Trademark Agency needs greater familiarity with emerging technologies.

Transparency of Regulatory System

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The International Financial Corporation's (IFC) 2005 Doing Business Survey ranked Georgia 100th out of 155 countries in ease of doing business. According to the report, Georgia was the runner-up reformer globally in terms of the number of reforms undertaken to improve the business sector. Georgia's reforms to licensing and registration procedures -- cutting the number of permits and licenses from 909 to 159 easing the cost of firing redundant workers, cutting the time and cost to register property, and a new tax law with fewer and simplified taxes -- were highlights of the reform efforts of 2004 and 2005. Information compiled by the IFC for its survey indicates room for further improvement on protecting investors, corporate governance, obtaining licenses, access to credit information, access to affordable credit, trading across borders, and disclosure of information to investors and shareholders.

Despite obvious improvements, the regulatory system has far to go to meet the standards of transparency familiar to businesspersons in advanced democracies. Poor enforcement of existing laws and questionable practices by Georgian officials have cast a shadow on Georgia's performance as a transition economy.

In 2004, the government demonstrated significant improvement in tax administration and revenue collection, resulting in the surplus budget. In 2005 the government maintained the positive trend, implementing a streamlined tax code, a limited financial amnesty, and

further improvements in tax administration. Import tariffs are to be substantially reduced in 2006 (to three bands with a maximum 12% tariff). The Customs Code is undergoing substantial revision, and is expected to pass Parliament in 2006.

International accounting standards became binding for joint stock companies in Georgia from January 1, 2000. For other institutions, such as banking institutions, insurance companies and companies operating in the field of insurance, as well as limited liability companies, limited partnerships, joint liability companies, and cooperatives the standards became binding on January 1, 2001. Private companies (excluding sole entrepreneurs, small businesses and non-commercial legal entities) are required to perform accounting and financial reporting in accordance with international accounting standards. Sole entrepreneurs, small businesses and non-commercial legal entities perform accounting and financial reporting following simplified interim standards approved by the Parliamentary Accounting Commission. Despite the legal requirement, the conversion to international accounting standards is going slowly, in part because many businesses have operated in the shadow economy, or maintained two sets of books. Qualified accounting personnel are in short supply.

The Tax Code is the principal piece of legislation directing the form and functions of the tax system, including the payment of taxes, and the legal positions of taxpayers and tax authorities. All companies--Georgian and foreign--are subject to central and local taxes, as well as certain social payments. At the end of 2004 the Parliament adopted a new tax code, reducing the overall number of taxes from twenty-two to seven, lowering the rates of three of the taxes, but raising excise tax rates on cigarettes, alcohol, and fuel.

A land privatization process was launched in Georgia in 1992. From 1992-1998, 55% of agricultural land was given to the farmers for private ownership free of charge. In 2005 the law "On Privatization of Agricultural Land Plots" provided for the privatization of approximately 45% of remaining state-owned land.

Georgia has signed double taxation agreements with 31 countries, including: Armenia, Austria, Azerbaijan, Belgium, Belarus, Bulgaria, China, Germany, Greece, Iran, Israel, Italy, Kyrgyzstan, Czech republic, Estonia, France, Kazakhstan, Latvia, Lithuania, Moldova, Netherlands, Poland, Romania, Russia, Switzerland, Tajikistan, Turkey, Turkmenistan, UK, Ukraine, Uzbekistan. The United States does not have a double taxation agreement with Georgia.

Georgia has GSP regimes with Turkey, Switzerland, Norway, Canada, USA, Japan, and "GSP +" with the EU. Georgia also has easy access to CIS markets under the CIS Free Trade Agreement.

Efficient Capital Markets and Portfolio Investment

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The Georgian banking system is still at an early stage of development, but is among the fastest growing and healthiest sectors of the Georgian economy. The sector continues to undergo needed consolidation through market forces. The Law on the Central Bank, adopted in 1996, introduced a two-tier banking system consisting of the Georgian National Bank and commercial banks. Currently, the banking system consists of domestic regional small- and medium-sized banks, a handful of large banking institutions with branch networks, and three foreign banks (American, Turkish, and Azerbaijani).

The National Bank of Georgia has limited monetary policy tools and relies on minimum capital requirements and exchange rate management.

By law, all commercial banks must become joint stock or limited liability companies. To improve the banking system, the NBG now certifies commercial banks and issues licenses for the conduct of specific banking activities. The introduction of bank prudential standards, generally in line with the Basel guidelines, together with enforcement of the regulatory framework by the NBG, led to a sharp reduction in the number of banks from a peak of 229 in early 1994 to 19 by the end of 2005 (including three existing branches of foreign banks). The top three banks accounted for a 56 percent and top ten banks accounted for 95 percent of total banking assets on September 30, 2005.

The limited number of foreign banks operating branch offices in Georgia reflects in part the small size of Georgia's financial market. However, foreign investment in the sector is significant, accounting for approximately one third (36.4%) of total bank capital. American ownership in one of the top three banks, has risen to roughly 20%. Russian Vneshtorgbank acquired 51% equity interest in United Georgian Bank and Turan Alem, largest bank of Kazakhstan, acquired 47% in SilkRoadBank.

Banking system assets have been rising. The maturity of loans has been gradually lengthening, but still represents a significant limitation on access to capital. Several banks have begun issuing mortgages, one in local currency. In March 2006, Citigroup announced the extension of a USD 25 million credit facility to a Georgian bank, the first of its kind in Georgia and a mark of increasing confidence in the Georgian financial sector. The overall role of banks in intermediation is below potential, though it is increasing. Some programs backed by international donors have recently been introduced to extend credit to micro-enterprises and small-scale agricultural projects.

The National Securities and Exchange Commission was created in 1998 to regulate portfolio investment and the small Georgian Stock Exchange. The primary goal of the Exchange is to create a transparent, liquid and organized securities market with a viable trading mechanism. The stock market organizes public trading of securities in compliance with the exchange rules and procedures, and disseminates information on trading results and prices. The improved professionalism of GSE member brokerage companies, the improved investment environment, the high standards of trading clearing and settlement systems of the GSE and the Georgian Central Securities depository, along with application of best international practices, have improved the international reputation of the GSE. GSE has a Memorandum of Cooperation with the Thessalonica Stock Exchange Center for the harmonization of trading platforms.

A total of 1358 trades took place on the GSE in 2005, up slightly from 1094 in 2004. Total volume of shares traded reached 32.4 million for the year, with a value of 62.4 million Georgian Lari (USD 34.28 million). The average monthly trading volume was 2.7 million shares, with an average monthly value of 9.6 million GEL (about USD 5.3 million.)

No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation, or control. There are no "cross-shareholder" or "stable-shareholder" arrangements used by private firms in Georgia. Georgian law does not restrict the free flow of financial resources.

Georgian legislation does not protect private firms from takeovers. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control over domestic enterprises. However, the mechanism by which hostile takeovers might be executed is lacking at this time.

Political Violence

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Georgia suffered considerable instability in the immediate post-Soviet period. Beginning in 1989 until 1998, civil war and separatist conflicts flared up in the areas of Abkhazia and South Ossetia. The status of each region remains unresolved and the central government does not have effective control over these areas. Neither separatist government has gained international recognition. The United States supports the territorial integrity of Georgia within its internationally-recognized borders.

Today, violence is minimal and limited to both conflict areas. However small scale acts of violence between Georgian and Ossetians within South Ossetia, and Georgians and Abkhaz within the ethnic-Georgian Gali District inside Abkhazia, often raise tensions. These events are irritants in bilateral relations between Georgia and Russia, which supports the breakaway aspirations of the two regions.

In February 2006, the Georgian Parliament passed a resolution calling for the replacement of (mostly) Russian Peace Keeping Forces from the South Ossetian zone of conflict. The Georgian government, with the support of the international community, has put forward a Peace Plan which it is negotiating with the de facto South Ossetian authorities and other parties to the 1992 Sochi Agreement. Progress on the Peace Plan is slow. The OSCE has undertaken a Needs Assessment Study in South Ossetia to determine areas for cooperation to improve the economic and social situation in the region. A donors' conference is tentatively scheduled for late spring 2006 to determine funding for possible activities. Georgian government officials similarly are working toward settlement of the conflict in Abkhazia.

Externally, Georgia maintains friendly relations with neighboring countries, including Turkey, Azerbaijan and Armenia. Development of regional energy projects, including the Baku-Tbilisi-Ceyhan oil pipeline and the Shah Deniz gas pipeline, have strengthened Georgia's ties with its neighbors and showcased its ability to undertake and host world-class infrastructure projects.

Corruption

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Georgia is ranked 130th out of 159 countries in Transparency International's 2005 Corruption Perception Index (using 2004 data). Corruption in Georgia, both official and otherwise, has been a significant and persistent obstacle not only to foreign investment, but also to economic development. Businesses, both foreign and local, had direct experience with official corruption, which included interference by traffic police, customs and tax officials, as well as legislation and decrees that adversely affected their interests, and unfavorable court rulings in investment disputes.

However, under President Saakashvili, Georgia has started to take action to address these problems. Anti-corruption efforts have resulted in the arrests of former officials, the radical downsizing of state bureaucracies, effective crackdowns on smuggling and have contributed to an increase of about 50 percent in state revenue collections. The notoriously corrupt traffic police were completely disbanded in mid-2004. Despite marked improvements, smuggling remains a serious obstacle to competitive business environment and occurs as a result of the porous borders of many of the nation's separatist regions. Georgia reasserted central control over the Black Sea region of Ajara in May 2004, reducing illicit economic activity there. Control of contraband smuggled through South Ossetia has improved, however the Georgian government has raised concerns with Russia and with the international community about continued high levels of smuggling, money laundering, and even counterfeiting of U.S. dollars in the areas outside its control.

The September of 2005 Anti-Corruption Strategy calls for an effective state management system and legal and public feedback mechanisms to prevent corruption. Among the goals of the strategy are the identification and analyses of conditions conducive to corruption as well as elaboration of mechanisms for their eradication; strengthening of principles of accountability and public disclosure in the public sector; establishment of rule of law prosecution of lawbreakers in accordance with legislation; and facilitation of competitive business sector development.

Bribery is a criminal act under Georgian law, and Parliament recently accepted a package of constitutional amendments that address abuse of public office as a criminal offense with a maximum penalty of fifteen years imprisonment and confiscation of property. Much remains to be done in order to eradicate corruption permanently.

Bilateral Investment Agreements

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Georgia has negotiated bilateral agreements on investment promotion and mutual protection with 24 countries, including the U.S., Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Egypt, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Latvia, Moldova, Netherlands, Romania, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, and Ukraine. Negotiations are underway with Lithuania, Kuwait and India.

OPIC and Other Investment Insurance Programs

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OPIC has provided direct finance, insurance, and indirect finance to several projects in Georgia and remains open to Georgia. Under the Small Business Loan Program, financing has been extended to the Georgian Leasing Company and to a small commercial air operator. OPIC provided direct financing for two hotel/mixed use building projects. OPIC has also provided insurance on a number of projects, and has financed a number of investment funds active in Georgia. OPIC exposure in Georgia has totaled to date over \$50 million.

Georgia offers an abundant supply of skilled and unskilled labor at attractive costs compared to Western European and American standards. The labor force is among the best educated and most highly trained in the former Soviet Union. While some of the best qualified professionals and technicians emigrated from Georgia (mostly to Russia, the U.S., and Germany) after the Soviet Union's collapse, many have remained in the country and are attempting to find a new role in a market economy. Unemployment remains high and job creation has been a particular challenge. The government hopes to attract investment in labor-intensive sectors such as construction and the hospitality industry.

The labor market in Georgia is relatively free and open. Although wage negotiations take place between employees and employers, trade unions are not politically powerful. Some local and small-scale strikes have taken place among teachers, pensioners, and workers in different sectors of economy due to lack of salary payments. However, this activity has not had a disruptive effect on economic activity.

Labor, health and safety laws are not considered an impediment to investment. Legal aspects of employment relationships in Georgia are still regulated by the Labor Code of 1973, and its subsequent amendments. Standard benefits to employees under current laws and regulations are generous, but may be curtailed under the revisions to the Labor Code currently being drafted, bringing Georgia more in line with western standards. Though most of the provisions of the 1973 Code are outdated, Georgian legislation recognizes freedom of contract and, therefore, certain issues not regulated by the labor code may be resolved by agreement of the parties. This is currently the general practice. The new labor code has been submitted to the Parliament and is expected to be passed in 2006.

The Georgian government adheres to a number of International Labor Organization (ILO) conventions. Georgia has signed multiple ILO agreements, including the Forced Labor Convention of 1930; the Paid Holiday Convention of 1936; the Anti-Discrimination (employment and occupation) Convention of 1951; the Human Resources Development Convention of 1975; the Right to Organize and Collective Bargaining Convention of 1949; the Equal Remuneration Convention of 1951; the Abolition of Forced Labor Convention of 1957; the Employment Policy Convention of 1964; and the Minimum Age Convention of 1973.

The Georgian Labor Code allows 24 calendar days of annual leave (not less than 20 days), together with 17 official holidays. Repayment of 2-months' salary was required in cases of dismissal, but this provision of the labor code was temporarily suspended from June 2004 until 2006, during government downsizings. Dismissal necessitates 1-month prior notification and consent of the concerned employee. The law protects pregnant women and mothers of very young children from termination unless the employing organization is liquidated. Employer-paid maternity leave is granted for up to 126 days. The Code restricts annual overtime to 120 hours, though this requirement is widely overlooked. Employers are legally required to make social security contributions for employees at a rate of 20% of salary.

The state social security system technically provides pension, unemployment and maternity benefits. These benefits are negligible, however, and the system needs to be reformed. Despite wage gains made in earlier years, monthly average wages remain very low compared to consumption basket: the average monthly nominal salary of hired employees across the economy in 2004 was GEL 163 (around \$3 per day), with a lower rate for the employees of public enterprises and a higher figure for the private sector. Starting from January 1, 2005, the monthly minimum wage for state employees was raised from GEL 20 to GEL 115 to meet minimum subsistence levels. In 2005, monthly pensions were increased from GEL 14-17 to GEL 28 countrywide, and will go up to GEL 38 in 2006.

The WB recently released its report on Growth, Poverty, and Inequality in Eastern Europe and the Former Soviet Union, which analyzes impact of economic growth during 1998-2003. The report indicates that Georgia had a poverty level of 50% in 2003, and lagged behind on poverty reduction due to "jobless growth."

Foreign-Trade Zones/Free Ports

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There are currently no foreign trade zones or free ports. Proposals to establish such zones have been under discussion but are controversial.

Foreign Direct Investment Statistics

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Foreign Direct Investment in Georgia peaked twice, in 1997-1998 and 2003-2004. Both peaks were related to the construction of pipelines, Baku–Supsa and Baku–Tbilisi–Ceyhan respectively.

The volume of FDI in Georgia made up USD 497,827,000 in 2004, marking 46,6% increase in comparison with 2003 indicator (USD 339,393,000) and 3 fold increase in comparison to year of 2002 (USD 167,362,000). Official statistics on Foreign Direct Investment (FDI) inflows during recent years are as follows:

2000 - USD 131.232 million
 2001 - USD 109.840 million
 2002 - USD 167.362 million
 2003 - USD 339.393 million
 2004 - USD 497.827 million
 2005 (six-month) – USD 194.936 million

Breakdown of investments by major countries in thousand USD

Countries	2000	2001	2002	2003	2004	2005 (6 month)
Total	131,232	109,840	167,362	339,393	497,827	194,936
USA	39,620	23,281	82,271	72,132	77,550	27,877
UK	4,824	8,509	17,530	37,670	83,944	112,900

Russia	6,239	5,073	7,810	42,686	73,712	43,700
Turkey	29,002	8,456	8,848	17,275	28,569	10,270
Cyprus	3,921	19,245	1,063	676	22,330	46,600
Azerbaijan	0	0	0	29,698	66,008	66,400
Italy	2,972	6,976	9,864	15,896	28,728	23,900
Norway	0	0	2,994	11,262	34,466	23,600
France	0	17,434	6,287	16,709	20,940	14,700

[Source: Georgian National Investment and Export Promotion Agency at the Ministry of Economic Development. Note: Russian investments for 2004 are overstated, as it includes the investment deals that were later annulled.]

Breakdown of investments by economic sector in thousand USD:

	2000	2001	2002	2003	2004
Total	131,232	109,840	167,362	339,393	497,827
Agriculture	1,177	620	890	784	965
Industry	43,788	27,428	29,523	49,204	66,013
Service	86,268	81,791	136,949	289,404	430,848

The U.S. has been one of the largest foreign investors in Georgia since 1999. In 2000, the United States accounted for 30 percent of FDI in Georgia; in 2001 for 25.7 percent of FDI, in 2002 -- 49 percent, in 2003 and 2004 these indicators were 21 percent and 16 percent respectively. [Source: the Ministry of Economic Development.]

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How Do I Get Paid (Methods of Payment)

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Large Georgian banks service foreign trade transactions. Methods of payment generally include a letter of credit and advanced payment. To carry out transactions, buyers and sellers must have a written contract. Because of high interest rates and short-term lending offered by local banks, most enterprises prefer to purchase equipment through supplier-financed transactions.

How Does the Banking System Operate

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Georgia has a two-tier banking system. The central bank, the National Bank of Georgia (NBG), sets monetary policy, issues licenses, and supervises the activities of banking institutions and currency exchange offices. To regulate circulating money and encourage deposits in Lari, NBG requires commercial banks to keep a certain percentage of their foreign currency deposit liabilities in reserve. The NBG is working on a national deposit insurance program, similar to the Federal Deposit Insurance Corporation (FDIC).

The ten largest commercial banks have 95 percent of capital and operations. Three foreign banks have branch offices in Georgia: Ziraat Bank (Turkey), The Caucasus Development Bank (Azerbaijan), and Cascade Bank (U.S.-financed through Armenia).

The U.S. Government has assisted the NBG to accelerate financial sector development in Georgia. NBG and most commercial banks use SWIFT to process international payments and messages. There are no restrictions on the number of bank accounts individuals and enterprises may hold with Georgian banks. The cost of lending remains high but should continue to decline as Georgia's banking sector develops.

Foreign-Exchange Controls

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The Lari (GEL) is the only legal tender in Georgia; it has no informal or parallel exchange rates. Foreign businesses may convert Lari into hard currency at the market exchange rate and freely transfer them abroad without limitation. The Lari is not freely convertible outside the country. One may hold foreign exchange in bank notes or on deposit in designated bank accounts. There are no limitations on these accounts' operation.

The Lari is traded on the Tbilisi Interbank Currency Exchange (TICEX) as well as in the Foreign Exchange Bureau Market (FXB). TICEX functions as a wholesale market for

foreign exchange between banks, while large volumes of small retail transactions are carried out in the FXB. Since 1998, the Lari floats freely.

Some Georgian banks accept and issue credit cards, although few businesses in Tbilisi accept credit cards. ATMs are available in the central areas of Tbilisi and at the Airport. ATMs are also available in the cities of Kutaisi, Poti, and Batumi.

U.S. Banks and Local Correspondent Banks

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There are no U.S. banks with branches in Georgia, though most Georgian banks have correspondent accounts with U.S. banks.

Project Financing

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Georgian banks mostly extend short-term loans for trade or for working capital financing. Total assets in the banking system have risen and the maturity of loans is gradually lengthening. However, local credit sources for Georgian importers still remain limited because of high annual interest rates—from 12 to 24 percent—and the short-term nature of loans offered by local banks.

The main source of project financing in Georgia is through credit lines to selected Georgian banks from multi- and bilateral financial institutions and funds: European Bank for Reconstruction and Development (EBRD), World Bank (WB), European Union's TACIS program, Kreditanstalt fuer Wiederaufbau (KfW), the International Financial Corporation (IFC), and an OPIC-backed fund, Soros Investment Capital, Ltd.

To facilitate financing for sales to Georgia and other Black Sea countries, the Ex-Im Bank entered into a cooperative agreement with the Black Sea Trade and Development Bank (BSTDB) on January 25, 2002. Under the agreement, Ex-Im Bank's short-, medium- and long- term financing can be used to support exports of U.S. goods and services to any country located in the Black Sea Region, including Georgia. BSTDB provides project and trade financing for the public and private sectors of the member countries. The agreement will enable the BSTDB to act as an obligator or guarantor on specific transactions and also provide for a parallel financing arrangement.

For risk insurance American exporters may contact the Overseas Private Investment Corporation (OPIC), which provides insurance coverage against political risk, currency inconvertibility, expropriation and political violence.

For more information on federal export assistance programs, contact the Trade Information Center (TIC) in the U.S. Department of Commerce. The TIC provides information on sources of: international trade and export promotion, financing and counseling; international market research and trade leads; overseas and domestic trade events and activities; and documentation and licensing requirements

The Economic/Commercial Section of the U.S. Embassy in Tbilisi can provide contact information and assistance to any U.S. firm about export financing, insurance, local and domestic business associations and partners, and business climate information.

The World Bank. The World Bank has a diverse portfolio in Georgia, and has 19 IDA credits totaling USD 344.8 million under implementation. In 2004 the World Bank approved three more projects totaling USD 47.6 million: Secondary and Local Roads, Supplementary Credit to Electricity Market Support, and Reform Support projects. The Bank's overall poverty-reduction program focuses on two key objectives: assisting Georgia to attain stronger and more broad-based growth and developing and strengthening Georgia's human capital.

International Finance Corporation (IFC). As of July 2005, IFC has invested about USD 100 million to finance projects in the financial, power, oil and gas, and manufacturing sectors. Between 1997 and 2001, the IFC invested in several investment projects in the agribusiness, manufacturing, power and banking sectors. IFC most recently approved a loan (USD 3 million) to TBC Bank for leasing operations with SME and private entrepreneurs.

The European Bank for Reconstruction and Development (EBRD). As of March 31 2005, the EBRD had signed twenty-two projects in Georgia (EUR 257 million), with 66 percent in the private sector. The EBRD has invested in the refurbishment of both the Tbilisi Airport, and the rehabilitation of the Enguri Dam and Hydro Power Station. The EBRD currently focuses on: developing infrastructure, reforming the financial sector, introducing further market competition, restructuring the corporate sector and introducing sound corporate governance. Together with the Microfinance Bank of Georgia, the EBRD is continuing to help develop a dynamic private sector, particularly through financing small and medium sized enterprises (SMEs). The EBRD is also helping to transform Georgia into a regional transportation and natural resources hub.

U.S. Trade and Development Agency (TDA). TDA provided partial funding for a study on upgrading the Georgian air traffic control system (USD 300,000). Northrop Grumman conducted the study, provided funding (\$500,000) for a strategic advisor on oil and gas pipelines for the Government of Georgia, and provided partial funding (\$178,500) for a study on constructing a refrigerated warehouse.

Overseas Private Investment Corporation (OPIC). The most recently opened OPIC backed fund with an office in Tbilisi is the Soros Investment Capital, Ltd. OPIC provided its first direct loan here for USD 26 million to develop two Marriott hotels—Tbilisi Marriott opened in 2002; Courtyard Marriott opened in 2004.

OPIC's new initiative, Small Business Center (SBC) provides financing and political risk insurance to small businesses with annual revenue less than USD 35 million. The U.S. small business must own at least 25 percent of the overseas project, but OPIC may be able to finance up to 65 percent of the total project costs. Current OPIC projects in Georgia supported under SBC program are: the Georgian Leasing Company and the GAMA pharmaceutical plant.

Millennium Challenge Corporation (MCC). In September 2005, the U.S. signed a five-year \$295.3 million Compact with Georgia. The Compact aims to reduce poverty and stimulate economic growth in the regions outside of Tbilisi. By focusing on rehabilitating regional infrastructure and promoting private sector development, the program will directly benefit approximately a half-million Georgians. In addition, over one quarter of the population will receive indirect benefits from the program; for example, the reliable transmission of gas will reduce environmental, health, and safety risks.

[Trade Information Center](#)

[US Embassy in Tbilisi Commercial Section](#)

[SBA's Office of International Trade](#)

[National Bank of Georgia](#)

[U.S. Embassy, Tbilisi, Georgia](#)

[U.S. Ex-Im Bank](#)

[U.S. OPIC](#)

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[World Bank](#)

[IFC](#)

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Business Customs

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The development of personal rapport is an important part of business relationships. Business meetings tend to be relatively relaxed affairs. Although tardiness does not necessarily reflect a lack of respect, foreign visitors should be punctual.

Business lunches are less common than in the U.S. and Europe. Dinners—known as "Georgian tables" or "Supras"—are generally long affairs, at which numerous, informal and impromptu toasts are often required of both host and honored guests. Wine is an important part of Georgian culture, and is a part of any meal. Georgians take great pride in their historic and widespread reputation as gracious hosts.

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[Georgia Consular Information Sheet](#)

Visa Requirements

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A passport is required; U.S. citizens visiting for 90 days or less do not need a visa. Armenian and Azerbaijani visas are no longer valid for transit through Georgia.

For further information on visas, please contact:

[Georgian Embassy to the U.S.](#) at

1101 15th Street, NW

Suite 602,

Washington DC, 20005

Tel: (202) 387-2390, fax: (202) 393-4537

U.S. Embassy Tbilisi encourages visiting Americans to register at the Consular Section of the U.S. Embassy in order to obtain updated information on travel and security within Georgia. <http://georgia.usembassy.gov>

U.S. Companies requiring travel of foreign businesspersons to the United States may find visa information on the following links.

[State Department Visa Website](#)

[United States Visas](#)

Telecommunications

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Georgia enjoys direct-dial long distance service for international calls. Because of poor line quality and limited capacity of landlines, cellular phones are ubiquitous and inexpensive. Internet access is available through several local providers and is also moderately priced by regional standards. However, the Internet is lacking outside of Tbilisi and two or three other major cities.

Transportation

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The condition of the internal roads in the country remains poor but improving. Currently, inter-city public transport is slow and unreliable. Within the capital there are many new and inexpensive buses, trolleybuses, taxis, and "marshrutka" minibuses. There is also a functioning subway system in Tbilisi that is under renovation. A cab ride from the airport to the center of Tbilisi should cost approximately USD 20.

Georgia's principal international airport is Tbilisi International Airport, which can handle 1,000-1,200 passengers per hour. Regional airports are in relatively poor shape. Currently there are several local airlines including the state flag carrier Georgian Airways, which operates three Boeing aircraft. Lufthansa, British Airways, Austrian Airlines, Turkish Airlines, Arkia, Aeroflot, Azalavia, Ukrainian Airlines, Donbasaero, Sakaviaservice and Belavia fly to Amsterdam, London, Vienna, Frankfurt, Paris, Tel-Aviv, Rome, Prague, Athens, Moscow, Kiev, Baku, Sochi, Dnepropetrovsk, Kharkov, Donetsk, Minsk, Dubai, Trabzon, Simferopol, Odessa, and Munich.

Georgia's neglected railroad system is slow and unreliable. Presently, about 90 percent of freight traffic stays on the main Trans-Caucasus route between the Black Sea ports of Poti and Batumi through Tbilisi to Yerevan (Armenia) and Baku (Azerbaijan).

Language

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The official language is Georgian but almost all business executives speak Russian. English is the most widely used after Russian, and is gaining in popularity, although it is still not widespread among the business community. Interpreters are widely available and relatively inexpensive.

Health

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Medical Care in Georgia is limited. Elderly travelers and those with extensive health problems may be at risk due to inadequate medical facilities, especially outside the capital. Doctors and hospitals generally expect immediate cash payment for health services. Travelers should have medical insurance that is valid outside the United States. In some cases, supplemental medical insurance with specific overseas coverage, including a provision for medical air evacuation, has been useful. Medi-Club-

Georgia's small clinics provide standard western medical care in Tbilisi.

Medi-Club-Georgia

Tel: +995 32 251991, 250911

mcg@mcg.com.ge, <http://www.mcg.com.ge>

The U.S. Embassy maintains a list of English-speaking physicians. Travelers may obtain further information on health matters from the Centers for Disease Control and Prevention's International Travelers' Hotline at (404) 332-4559, or at <http://www.cdc.gov>

Georgia does not have universal immunization, but travelers immunized for illnesses such as diphtheria, measles, and mumps are not at particular risk. Because of recent outbreaks of rabies and a shortage of the vaccine used to treat those who became infected, travelers should consider receiving the pre-exposure series of the rabies vaccine before leaving the United States. Georgia is a high hepatitis risk area. All travelers should have, or at least begin, hepatitis A and B vaccination.

Local Time, Business Hours, and Holidays

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Standard time zone for Georgia is: UTC/GMT + 3 hours during summer time and UTC/GMT + 4 during wintertime. Georgia does not observe daylight savings time.

Although the business day runs from 9:00 a.m. to 6:00 p.m., the best contact time is 10:00 a.m. to 5:00 p.m. Business leaders and senior government officials tend to start work around 10:00 a.m., work into the night, and often break for a late working dinner.

Georgia has 14 national holidays:

January 1-2	New Year's Day
January 7	Christmas (Orthodox Church)
January 19	Epiphany (Orthodox Church)
March 3	Mother's Day
March 8	International Women's Day
April 9	Memorial Day/Good Friday
April 21	Good Friday
April 24	Easter Monday (Recollection of Deceased)
May 9	Victory Day
May 12	St. Andrew's Day
May 26	Independence Day
August 28	Day of the Virgin (Orthodox Church)
October 14	Svetitskovloba (Day of the Saint)
November 23	St. George's Day

Temporary Entry of Materials and Personal Belongings

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Travelers to Georgia must fill out a customs declaration upon arrival and present it to customs officials upon departure. Travelers must declare on the customs form all items of value, including currency; failure to do so may result in fines or other penalties. If your customs form is lost or stolen, please report the loss to the police to obtain a certificate to show to customs officials upon departure.

Georgia's customs authorities may enforce strict regulations on the temporary importation into or export from Georgia of items such as alcohol, tobacco, jewelry, religious materials, art or artifacts, antiquities, and business equipment. Only personal medications with a doctor's note can be imported without the permission of the Georgian Department of Healthcare.

U.S. citizens may not import firearms into Georgia; however, hunting weapons may be brought into the country for a two-week period based on valid Georgian hunting licenses. While there is no limit to the amount of currency that can be imported, if more money is exported than was declared at the time of entry, the traveler is obligated to prove it was legally obtained. There are limits on the amount of exported Georgian currency.

The Department of Expertise and Evaluation under the Ministry of Culture and Science must license any valuables being taken out of Georgia such as artwork, antiques, jewelry, paintings, etc. This license describes the object, assesses its value, and provides permission to export it from Georgia. The U.S. Embassy in Tbilisi, Georgia, can provide more specific information on quantities of items that can be imported duty-free, as well as duties excised for specific items. It is also advisable to contact the Embassy of Georgia in Washington, D.C. for specific information regarding customs requirements.

Web Resources

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[Georgian Embassy in USA](#)
[U.S. Embassy, Tbilisi, Georgia](#)
[USAID/Caucasus - Economic Growth Program](#)
[Millennium Challenge Georgia Fund](#)
[Travel](#)
[Health](#)
[Marriott Hotel in Tbilisi](#)
[Sheraton Metechi Palace](#)
[Betsy's Hotel](#)

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Chapter 9: Contacts, Market Research, and Trade Events

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- [Market Research](#)
- [Trade Events](#)

Contacts

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Government Entities

[Ministry of Foreign Affairs](#)

[Ministry of Finance](#)

[Ministry of Economic Development](#)

[Ministry of Agriculture and Food](#)

[Ministry of Fuel and Energy](#) (will be activated at the end of 2005.)

[Ministry of Justice](#)

[Ministry of Environment and Natural Resources](#)

[Ministry of Labor, Health and Social Security](#)

[Tax Department](#)

[Customs Department](#)

[Georgian National Communication Commission](#)

[National Bank of Georgia](#)

[State Department of Statistics](#)

[Georgian National Investment and Export Promotion Agency](#)

Trade Associations

[Georgian Chamber of Industry and Trade](#)

[American Chamber of Commerce in Georgia](#)

[Federation of Georgian Businessmen](#)

[America Georgia Business Council](#)

[The Commercial Section – US Embassy Tbilisi](#)

Market Research

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U.S. Commercial Service-produced Country and Industry Market reports are located on: <http://www.export.gov/marketresearch.html>. These free reports are only available to U.S. citizens and U.S. companies after completing the site registration.

BISNIS has a representative in Tbilisi.

Trade Events

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For information on upcoming trade events, click: [Trade Events](#)

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Chapter 10: Guide to Our Services

The U.S. Commercial Service offers customized solutions to help your business enter and succeed in markets worldwide. Our global network of trade specialists will work one-on-one with you through every step of the exporting process, helping you to:

- Target the best markets with our world-class research
- Promote your products and services to qualified buyers
- Meet the best distributors and agents for your products and services
- Overcome potential challenges or trade barriers

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U.S. exporters seeking general export information/assistance or country-specific commercial information should consult with their nearest **Export Assistance Center** or the **U.S. Department of Commerce's Trade Information Center** at **(800) USA-TRADE**, or go to the following website: <http://www.export.gov>

To the best of our knowledge, the information contained in this report is accurate as of the date published. However, **The Department of Commerce** does not take responsibility for actions readers may take based on the information contained herein. Readers should always conduct their own due diligence before entering into business ventures or other commercial arrangements. **The Department of Commerce** can assist companies in these endeavors.